

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**System Review Report
of the
United States Securities and Exchange Commission
Office of Inspector General Audit Organization**

August 23, 2012

**Jeffery E. Schanz
Inspector General**



Office of Inspector General
Legal Services Corporation

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August 23, 2012

The Honorable Jon T. Rymer, Interim Inspector General
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Mr. Rymer:

We have reviewed the system of quality control for the audit organization of the United States Securities and Exchange Commission (SEC) Office of Inspector General (OIG) in effect for the twelve-month period ended March 31, 2012. A system of quality control encompasses the SEC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The SEC OIG is responsible for designing a system of quality control and complying with it to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the SEC OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed SEC OIG personnel and obtained an understanding of the nature of the SEC OIG audit organization, and the design of the SEC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the SEC OIG's system of quality control. The engagements selected represented a reasonable cross-section of the SEC OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and discussed the results of our review with the SEC OIG. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the SEC OIG's audit organization. In addition, we tested compliance with the SEC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the SEC OIG's policies and procedures on selected engagements. Our testing also covered the SEC OIG's adherence to its policies dealing with the evaluation of management comments on audit reports. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

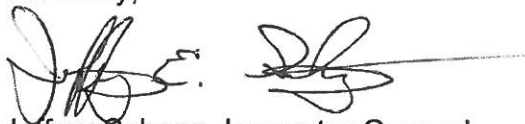
There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

The enclosure to this report identifies the SEC OIG engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the SEC OIG in effect for the 12-month period ended March 31, 2012, has been suitably designed and complied with to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The SEC OIG has received a peer review rating of *pass*.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the SEC OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the SEC OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the SEC OIG's monitoring of work performed by IPAs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey Schanz', followed by a horizontal line.

Jeffrey Schanz, Inspector General
Legal Services Corporation

Enclosure: Scope and Methodology

SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the SEC OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of three of four audit and attestation reports issued during the period April 1, 2011, through March 31, 2012, and semiannual reporting periods ending September 30, 2011 and March 31, 2012. We also reviewed the internal quality control reviews performed by the SEC OIG.

In addition, we reviewed the SEC OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2011, through March 31, 2012. During the period, the SEC contracted with the Government Accountability Office (GAO) for the audit of the agency's calendar year 2011 financial statements. The SEC OIG contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

Reviewed Engagements Performed by SEC OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
492	August 2, 2011	Employee Recognition Program and Recruitment, Relocation, and Retention of Incentives
507	March 28, 2012	SEC's Use of Justifications and Approvals in Sole-source Contracting

Reviewed Monitoring Files of SEC OIG for Contracted Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
503	March 28, 2012	SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property